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SUBJECT: WTO MEETING BREATHE NEW LIFE INTO TRADE REFORMS

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¶1. SUMMARY: When it comes to trade reform, Yemen may finally be willing to do business. The ROYG's World Trade Organization (WTO) negotiating team recently returned from the third Working Party meeting in Geneva reporting significant progress. Despite some differences on tariff rates, the ROYG felt its offers were well received, and that WTO accession was possible in the near future. The United States and the European Union applied coordinated pressure on Yemen to implement key elements of its action plans, asking Yemen to demonstrate a genuine commitment to trade reform. This message was understood, and the ROYG is once again interested in utilizing support from the Trade and Investment Framework Agreement (TIFA) with the United States to move forward in key areas, including customs valuation and commercial codes. A new reform-minded Cabinet is strongly supportive of WTO accession, as is President Saleh, opening up a window of opportunity for renewed cooperation. END SUMMARY.

Yemen Gets Serious About Accession

¶2. On July 17, Econoffs met with Hamoud al-Nagar, WTO Director at the Ministry of Trade, following the July 7 WTO Working Party meeting in Geneva (the third such meeting). Nagar appeared positive about Yemen's progress towards WTO accession, and said that his team had constructive bilateral meetings with the United States and the European Commission. According to Nagar, the ROYG's most recent Goods and Services offer represented a significant step forward, and was on par with those of other Least Developing Countries in the WTO, such as Nepal and Cambodia. Nagar pointed specifically to a reduction in the average of binding tariffs from 62 percent to 32 percent, and dropped three quarters of the protected goods named in the previous offer.

¶3. "The mood in our government has changed dramatically," said Nagar. "In 2000, WTO was almost a dirty word. We were afraid to talk about it." Since the Cabinet reshuffle in February, however, Nagar noted that the ROYG was now firmly pro-WTO. President Saleh's recent call for speedy accession removed any doubts about the country's direction, according to Nagar, who insisted that even the obstructionist Prime Minister Bajammal was now firmly in the WTO camp. Nagar also said that Yemen as interested in moving forward on a bilateral trade agreement with the United States, as was recently done with China.

¶4. One serious point of contention in Geneva, said Nagar, was the U.S. suggestion that Yemen bind its tariff rates at

the current applied rates. Nagar argued that when implementing World Bank and IMF reforms, in many cases the ROYG reduced rates below the ceilings proposed in the current WTO Goods and Services Offer. The ROYG should not be punished for unilaterally lowering rates as part of an effort to combat smuggling, argued Nagar. There may come a day when Yemen will need added protection for a specific good, specifically agricultural products, and the current offer maintains some room for policy changes in the future. Nagar expressed his hope that the United States would show flexibility on this point.

ROYG Loses Focus on TIFA...

¶5. In the run-up to the Working Party meeting, Post experienced a frustrating delay in its cooperation with the ROYG. After a November 2004 TIFA meeting in Washington, the USG agreed to provide technical assistance to the ROYG for the accession process in such areas as intellectual property rights (IPR), customs, standards/technical barriers to trade, and sanitary and phytosanitary measures (SPS). The flagship program was a USD 500,000 effort to support implementation of WTO customs valuation standards, jointly funded by MEPI and USAID. Initial success in training customs staff and advising on proposed legislation soon stalled, however, when it became clear that the ROYG had no strategy to implement the new standards.

¶6. Customs valuation in turn became an indicator of the ROYG's overall commitment to TIFA cooperation. Since the 2004 meeting, there were no additional meetings of the TIFA ministerial group, and only one conference call for the technical committee. Despite several USG offers, there were few signs from the ROYG as to what assistance was required. In addition, there was considerable confusion as to who

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within the ROYG was leading the TIFA process. Formal leadership rested with the Ministry of Planning, while all WTO-related matters were handled in the Ministry of Trade. Lack of coordination between these and other ministries resulted in complete deadlock.

...USG Gets Their Attention

¶7. Ambassador raised TIFA issues directly with the Ministers of Finance, Trade and Planning to no effect. On June 6, Ambassador addressed a letter to the Prime Minister (with copies to the above ministers), noting delays in TIFA cooperation and urging the ROYG to select a champion for the cause. Post did not receive an official response, but the letter was noted by officials in each ministry and reportedly treated seriously.

¶8. In addition to bilateral discussions with the ROYG, Post and USTR also worked together to establish a common position among Working Party representatives in Geneva to press for progress on implementation of proposed action plans. Post worked informally to establish a common position with the members of the European Commission, the Canadians, and the Japanese. The message came across clearly in Geneva, as Nagar reported an increased focus in the meetings on reducing implementation times for compliance with WTO standards.

New Hope For Trade Reform

¶9. The focus on implementation appeared to have spurred Nagar to action. As WTO Coordinator, Nagar is currently working with the Customs Authority to create an action plan for accepting WTO valuation standards. Nagar added that the

ROYG is seriously considering adoption of WTO agreements on civil aviation and information technology, and welcomed the suggestion that the MEPI-funded Commercial Law Development Program (CLDP) could work with the Cabinet, Parliament, and the private sector on Yemen's commercial code. He further recommended that the ROYG convene a TIFA meeting in September to focus on implementing action plans and completing a needs assessment for the accession process. Nagar promised that regardless of which ministry had the official lead, his office would work hard to identify specific areas for TIFA cooperation in advance of the next WTO Working Party meetings in early 2007.

"Now Is The Time For Action"

¶10. COMMENT: Considering the newfound support for WTO accession within the Government, Nagar stressed that this is the time to push for trade reforms. Post could not agree more. After more than one year of delays on TIFA programs, and no clear indication of the ROYG's commitment to joining WTO, there appears to be renewed willingness to engage on all fronts. Post will explore the possibility of restarting assistance for customs valuation within the new action plan, move forward with CLDP's offer of legal assistance, and explore other possibilities for cooperation under MEPI-funded TIFA initiatives. These actions could potentially have a ripple effect on the Government's broader reform plan, and its standing with the Millennium Challenge Account -- a point not lost on the Ministry of Trade. Ultimately, the ROYG's follow-through on the proposed September TIFA meeting will provide a clear test as to whether U.S.-Yemeni cooperation on trade reform has new life. END COMMENT.
Khoury